(2) Incorporated by reference to Form S-1 filed January 9, 1996 file no. 333-00204.

(3) Incorporated by reference to Form S-8 filed January 14, 1996 file no. 333-19727.

(4) Incorporated by reference to Form S-1 filed March 8, 1996 file no. 333-00204.

(5) Incorporated by reference to Form 10-K for the fiscal year ended July 31, 1997, filed October 29, 1997.

(6) Incorporated by reference to Form S-1 filed March 14, 1996 file no. 333-00204.

(7) Incorporated by reference to Form 10-K/A for the fiscal year ended July 31, 1997, filed February 2, 1998.

(8) Incorporated by reference to Form 8-K filed April 22, 1998.

(9) Incorporated by reference to Form 10-K/A for the fiscal year ended July 31, 1998, filed December 4, 1998.

(10) Incorporated by reference to Form 10-Q for the fiscal quarter ended January 31, 1999, filed March 17, 1999.

(11) Incorporated by reference to Form 10-Q for the fiscal quarter ended April 30, 1999, filed June 14, 1999.

(12) Incorporated by reference to Form 10-K for the fiscal year ended July 31, 1999, filed November 4, 1999.

(13) Incorporated by reference to Form 10-Q for the fiscal quarter ended April 30, 2001, filed March 12, 2000.

(14) Incorporated by reference to Form 8-K filed March 31, 2000.

(15) Incorporated by reference to Schedule 14C filed June 12, 2000.

(16) Incorporated by reference to Form 10-Q for the fiscal quarter ended April 30, 2000, filed June 14, 2000.

(17) Incorporated by reference to Form 10-Q for the fiscal quarter ended October 31, 2000, filed December 15, 2000.

(18) Incorporated by reference to Form 10-Q for the fiscal quarter ended January 31, 2001, filed March 19, 2001.

(19) Incorporated by reference to Schedule 13D filed on April 30, 2001.

(b) Reports on Form 8-K.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

IDT Corporation

By: /s/ Howard S. Jonas

Howard S. Jonas
Chairman of the Board and Treasurer

Date: October 29, 2001

Pursuant to the requirements of the Securities Act of 1933, this Annual Report on Form 10-K has been signed by the following persons on this 29th day of October, 2001 in the capacities and on the dates indicated.

Signature	Titles
/s/ Howard S. Jonas Howard S. Jonas	Chairman (Principal Executive Officer)
/s/ James A. Courter James A. Courter	Vice Chairman and Chief Executive Officer (Principal Executive Officer)
/s/ Michael Fischberger Michael Fischberger	Chief Operating Officer and Director
/s/ Stephen R. Brown Stephen R. Brown	Chief Financial Officer and Director (Principal Financial and Accounting Officer)
/s/ Joyce J. Mason Joyce J. Mason	Director
/s/ Marc E. Knoller Marc E. Knoller	Director
/s/ Moshe Kaganoff Moshe Kaganoff	Director
/s/ Geoffrey Rochwarger Geoffrey Rochwarger	Director
/s/ Meyer A. Berman Meyer A. Berman	Director

Signature	Titles
/s/ J. Warren Blaker J. Warren Blaker	Director
/s/ Denis A. Bovin Denis A. Bovin	Director
/s/ Saul K. Fenster Saul K. Fenster	Director
/s/ Michael J. Levitt Michael J. Levitt	Director
/s/ William Arthur Owens William Arthur Owens	Director
/s/ Paul Reichmann Paul Reichmann	Director
/s/ William F. Weld William F. Weld	Director

IDT CORPORATION

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
IDT Corporation

We have audited the accompanying consolidated balance sheets of IDT Corporation (the "Company") as of July 31, 2000 and 2001, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended July 31, 2001. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at July 31, 2000 and 2001 and the consolidated results of its operations and its cash flows for each of the three years in the period ended July 31, 2001, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

New York, New York
October 23, 2001

IDT CORPORATION

CONSOLIDATED BALANCE SHEETS

	July 31 2000	July 31 2001
	(In thousands, except share data)	
Assets		
Current assets:		
Cash and cash equivalents	$ 162,879	$ 1,091,071
Marketable securities	230,160	3,489
Trade accounts receivable, net of allowance for doubtful accounts of approximately $26,771 at July 31, 2000 and $22,508 at July 31, 2001	160,995	116,759
Other current assets	87,859	32,413
Total current assets	641,893	1,243,732
Property, plant and equipment, net	225,638	224,042
Goodwill and other intangibles, net	162,233	197,804
Marketable securities	132,278	--
Investments	29,318	60,732
Other assets	27,695	155,028

Total assets	$ 1,219,055	$ 1,881,338
Liabilities and stockholders' equity		
Current liabilities:		
Trade accounts payable	$ 161,888	$ 163,313
Accrued expenses	36,436	54,893
Deferred revenue	48,572	71,387
Notes payable--current portion	22,604	2,657
Capital lease obligations--current portion	13,540	18,270
Other current liabilities	10,923	17,819
Total current liabilities	293,963	328,339
Deferred tax liabilities	168,772	390,914
Notes payable--long-term portion	12,174	380
Capital lease obligations--long-term portion	43,940	49,799
Other liabilities	709	14,502
Total liabilities	519,558	783,934
Minority interests	231,309	21,419
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value; authorized shares--10,000,000; no shares issued	--	--
Common stock, $.01 par value; authorized shares--100,000,000; 25,959,256 and 22,791,789 shares issued and outstanding in 2000 and 2001, respectively	260	228
Class A common stock, $.01 par value; authorized shares--35,000,000; 9,970,233 and 9,816,988 shares issued and outstanding in 2000 and 2001, respectively	100	98
Class B common stock, $.01 par value; authorized shares--100,000,000; 35,929,489 and 39,291,411 shares issued and outstanding in 2000 and 2001, respectively	359	393
Loans to stockholders	(251)	(251)
Additional paid-in capital	370,646	494,093
Treasury stock, at cost	--	(138,087)
Accumulated other comprehensive income	(92,653)	(2,575)
Retained earnings	189,727	722,086
Total stockholders' equity	468,188	1,075,985
Total liabilities and stockholders' equity	$ 1,219,055	$ 1,881,338

See accompanying notes.

IDT CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended July 31 1999	2000	2001
	(In thousands, except per share data)		
Revenues	$ 732,184	$ 1,093,912	$ 1,230,950
Costs and expenses:			
Direct cost of revenues	575,050	918,257	1,066,845
Selling, general and administrative	128,500	343,702	337,107
Depreciation and amortization	36,360	48,564	60,351
Impairment charges	--	--	199,357
Total costs and expenses	739,910	1,310,523	1,663,660
Loss from operations	(7,726)	(216,611)	(432,710)
Interest income (expense), net	(1,228)	7,231	52,768
Equity loss	--	(6,289)	(75,066)
Gain on sales of subsidiary stock	--	350,344	1,037,726
Other income (expense)	(2,035)	258,218	164,762
Income (loss) before income taxes, minority interests and extraordinary item	(10,989)	392,893	747,480
Provision for income taxes	7,253	218,403	209,395

Minority interests	(3,308)	(59,336)	5,726
Income (loss) before extraordinary item	(14,934)	233,826	532,359
Extraordinary loss on retirement of debt, net of income taxes	(3,270)	(2,976)	--
Net income (loss)	(18,204)	230,850	532,359
Subsidiary redeemable preferred stock dividends	26,297	--	--
Net income (loss) attributable to common stockholders	$ (44,501)	$ 230,850	$ 532,359
Net income (loss) per share:			
Net income (loss) attributable to common stockholders before extraordinary item:			
Basic	$ (0.61)	$ 3.34	$ 7.79
Diluted	$ (0.61)	$ 3.11	$ 7.12
Extraordinary loss on retirement of debt, net of income taxes:			
Basic	$ (0.05)	$ (0.04)	$ --
Diluted	$ (0.05)	$ (0.04)	$ --
Net income (loss) attributable to common stockholders:			
Basic	$ (0.66)	$ 3.30	$ 7.79
Diluted	$ (0.66)	$ 3.07	$ 7.12
Weighted-average number of shares used in calculation of net income (loss) per share:			
Basic	67,060	69,933	68,301
Diluted	67,060	75,239	74,786

See accompanying notes.

IDT CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except share data)

	Common Stock		Class A Stock		Class B Stock	
	Shares	Amount	Shares	Amount	Shares	Amount
Balance at July 31, 1998	22,848,866	$ 229	10,255,668	$ 102	33,104,534	$ 330
Exercise of stock options	696,840	7	--	--	696,840	7
Income tax benefit from stock options exercised	--	--	--	--	--	--
Conversion of Class A stock to common stock	225,910	2	(225,910)	(2)	--	--
Issuance of common stock in connection with business acquisitions	100,000	1	--	--	100,000	1
Exercise of warrants	111,238	1	--	--	111,238	1
Costs associated with stock registration	--	--	--	--	--	--
Net loss for the year ended July 31, 1999	--	--	--	--	--	--
Balance at July 31, 1999	23,982,854	240	10,029,758	100	34,012,612	339
Exercise of stock options	1,310,700	13	--	--	1,310,700	13
Income tax benefit from stock options exercised	--	--	--	--	--	--
Conversion of Class A stock to common stock	59,525	--	(59,525)	--	--	--
Exercise of warrants	19,963	--	--	--	19,963	--
Issuance of common stock	3,728,949	37	--	--	3,728,949	37
Change in unrealized gain (loss) in available for sale securities	--	--	--	--	--	--
Foreign currency translation adjustment	--	--	--	--	--	--
Repurchase of common stock	(3,142,735)	(30)	--	--	(3,142,735)	(30)
Modification of stock options	--	--	--	--	--	--
Stock options given to partnership	--	--	--	--	--	--
Net income for the year ended July 31, 2000	--	--	--	--	--	--
Comprehensive income						
Balance at July 31, 2000	25,959,256	260	9,970,233	100	35,929,489	359
Exercise of stock options	698,451	7	--	--	343,000	4
Income tax benefit from stock options exercised	--	--	--	--	--	--
Conversion of Class A stock to common stock	153,245	2	(153,245)	(2)	--	--

Issuance of stock options	--	--	--	--	--	--
Modification of stock options	--	--	--	--	--	--
Issuance of Class B common stock	--	--	--	--	7,038,085	71
Change in unrealized gain (loss) in available for sale securities	--	--	--	--	--	--
Foreign currency translation adjustment	--	--	--	--	--	--
Repurchase of common stock	(4,019,163)	(41)	--	--	(4,019,163)	(41)
Net income for the year ended July 31, 2001	--	--	--	--	--	--
Comprehensive income						
Balance at July 31, 2001	22,791,789	$ 228	9,816,988	$ 98	39,291,411	$ 393

	Loans to Stockholders	Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Income	Retained Earnings (Deficit)	Total Stockholders' Equity
Balance at July 31, 1998	$ --	$ 305,049	$--	$ --	$ (22,919)	$ 282,791
Exercise of stock options	(251)	4,068	--	--	--	3,831
Income tax benefit from stock options exercised	--	4,258	--	--	--	4,258
Conversion of Class A stock to common stock	--	--	--	--	--	--
Issuance of common stock in connection with business acquisitions	--	2,848	--	--	--	2,850
Exercise of warrants	--	922	--	--	--	924
Costs associated with stock registration	--	(123)	--	--	--	(123)
Net loss for the year ended July 31, 1999	--	--	--	--	(18,204)	(18,204)
Balance at July 31, 1999	(251)	317,022	--	--	(41,123)	276,327
Exercise of stock options	--	14,508	--	--	--	14,534
Income tax benefit from stock options exercised	--	10,346	--	--	--	10,346
Conversion of Class A stock to common stock	--	--	--	--	--	(1)
Exercise of warrants	--	117	--	--	--	117
Issuance of common stock	--	128,574	--	--	--	128,648
Change in unrealized gain (loss) in available for sale securities	--	--	--	(94,044)	--	(94,044)
Foreign currency translation adjustment	--	--	--	1,391	--	1,391
Repurchase of common stock	--	(101,822)	--	--	--	(101,882)
Modification of stock options	--	985	--	--	--	985
Stock option given to partnership	--	916	--	--	--	916
Net income for the year ended July 31, 2000	--	--	--	230,850	230,850	230,850
Comprehensive income				138,197		
Balance at July 31, 2000	(251)	370,646	--	(92,653)	189,727	468,188
Exercise of stock options	--	6,872	--	--	--	6,883
Income tax benefit from stock options exercised	--	2,676	--	--	--	2,676
Conversion of Class A stock to common stock	--	--	--	--	--	--
Issuance of stock options	--	2,000	--	--	--	2,000
Modification of stock options	--	3,082	--	--	--	3,082
Issuance of Class B common stock	--	106,497	--	--	--	106,568
Change in unrealized gain (loss) in available for sale securities	--	--	--	89,148	--	89,148
Foreign currency translation adjustment	--	--	--	930	--	930
Repurchase of common stock	--	2,320	(138,087)	--	--	(135,849)
Net income for the year ended July 31, 2001	--	--	--	532,359	532,359	532,359
Comprehensive income				622,437		
Balance at July 31, 2001	$ (251)	$ 494,093	$(138,087)	$ (2,575)	$ 722,086	$ 1,075,985

See accompanying notes.

IDT CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended July 31		
	1999	2000	2001

		(In thousands)	
Operating activities			
Net income (loss)	$ (18,204)	$ 230,850	$ 532,359
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	36,360	48,564	60,351
Impairment charges	--	--	199,357
Extraordinary loss on retirement of debt before taxes	5,360	4,870	--
Minority interests	(3,309)	(59,336)	5,726
Deferred tax liabilities	(1,156)	216,903	204,188
Issuance of common stock to charitable foundation	--	--	26,378
Net realized (gains)/losses from sales of marketable securities and investments	--	(261,025)	148,724
Equity loss	--	6,289	75,066
Non-cash compensation	15,734	42,917	3,082
Gain on TyCom settlement	--	--	(313,486)
Gain on sales of subsidiary stock	--	(350,344)	(1,037,726)
Changes in assets and liabilities:			
Trade accounts receivable	(68,108)	(52,643)	36,029
Other current assets	(24,214)	(40,718)	26,941
Other assets	(6,771)	12,524	(12,707)
Deferred revenue	4,035	34,026	7,271
Trade accounts payable and other	41,976	90,053	64,675
Net cash provided by (used in) operating activities	(18,297)	(77,070)	26,228
Investing activities			
Purchases of property, plant and equipment	(48,098)	(101,192)	(106,513)
Purchase of trademark	(5,000)	--	--
Issuance of notes receivable	(13,423)	--	(12,089)
Investments and acquisitions, net of cash acquired	(10,735)	(38,803)	(73,722)
Collection of notes receivable	14,040	9,524	--
Sales of marketable securities	--	--	164,052
Net purchases of marketable securities	(17,561)	(7,059)	--
Net proceeds from sales of subsidiary stock	--	115,434	1,042,113
Net cash provided by (used in) investing activities	(80,777)	(22,096)	1,013,841
Financing activities			
Proceeds from issuance of Series A preferred stock and warrants by Net2Phone	29,900	--	--
Proceeds from exercise of stock options for Net2Phone	1,334	8,172	--
Proceeds from exercise of warrants for Net2Phone	438	--	--
Payment of debt issuance costs	(4,475)	--	--
Distributions to minority shareholder	(6,079)	(3,179)	(18,908)
Proceeds from borrowings	115,945	13,898	--
Proceeds from exercise of warrants	924	118	--
Proceeds from exercise of stock options	7,967	14,534	6,883
Repayments of capital lease obligations	(5,349)	(9,833)	(14,736)
Repayments of borrowings	(103,912)	(108,146)	(26,054)
Proceeds from sale of common stock	--	128,648	74,787
Proceeds from offerings of common stock by Net2Phone	--	261,189	--
Collection of loans to stockholders by Net2Phone	--	623	--
Proceeds from minority investment in subsidiary	--	5,000	--
Proceeds from issuance of stock options	--	--	2,000
Payments to repurchase common stock	--	(101,882)	(135,849)
Net cash (used in) provided by financing activities	36,693	209,142	(111,877)
Net increase (decrease) in cash	(62,381)	109,976	928,192
Cash and cash equivalents at beginning of year	115,284	52,903	162,879
Cash and cash equivalents at end of year	$ 52,903	$ 162,879	$ 1,091,071
Supplemental disclosure of cash flow information			
Cash payments made for interest	$ 13,483	$ 10,074	$ 7,997
Cash payments made for income taxes	$ 235	$ 1,050	$ 5,963
Supplemental schedule of noncash activities			
Purchase of fixed assets by capital lease	$ 11,899	$ 45,541	$ 759

See accompanying notes

IDT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
July 31, 2001

1. Summary of Significant Accounting Policies

Description of Business

IDT Corporation ("IDT" or the "Company") is a multinational telecommunications carrier that provides a broad range of services to its retail and wholesale customers worldwide. The Company mainly provides its customers with integrated international and domestic long distance, and prepaid calling cards.

Until August 2000, the Company also provided Internet telephony services through its majority owned subsidiary Net2Phone, Inc. ("Net2Phone"). On August 11, 2000, the Company completed the sale of 14.9 million shares of its holdings of Net2Phone's Class A Common Stock, at a price of $75 per share to ITelTech, LLC ("ITelTech"), a Delaware limited liability company controlled by AT&T Corporation ("AT&T"). In addition, ITelTech purchased four million newly-issued shares of Class A Common Stock from Net2Phone at a price of $75 per share. These transactions reduced the voting stake of IDT in Net2Phone from approximately 56% to 21% and its economic stake in Net2Phone from approximately 45% to 16%. In recognition of these transactions, the Company recorded a gain on sales of subsidiary stock of $1.038 billion during the year ended July 31, 2001, and has deconsolidated Net2Phone effective August 11, 2000. Accordingly, the Company accounts for its investment in Net2Phone using the equity method.

As discussed in footnote 15, "Subsequent Events", on October 23, 2001, IDT, Liberty Media Group ("Liberty Media") and AT&T formed a limited liability company ("LLC"), which through a series of transactions among IDT, Liberty Media and AT&T now holds an aggregate of 28.9 million shares of Net2Phone's Class A common stock, representing approximately 50% of Net2Phone's outstanding capital stock. Because the LLC holds Class A common stock with two votes per share, the LLC has approximately 64% of the shareholder voting power in Net2Phone. IDT holds the controlling membership interest in the LLC.

On May 4, 2001, the Company declared a stock dividend of one share of Class B common stock for every one share of common stock, Class A common stock and Class B common stock. IDT distributed the dividend shares on May 31, 2001 to shareholders of record on May 14, 2001. The stock dividend has been accounted for as a stock split and all references to the number of common shares, per common share amounts and stock options have been restated to give retroactive effect to the stock dividend for all periods presented. The Class B common stock commenced trading on the New York Stock Exchange on June 1, 2001 under the ticker symbol "IDT B".

Basis of Consolidation and Accounting for Investments

The consolidated financial statements include the accounts of IDT and all companies in which IDT has a controlling voting interest ("subsidiaries"), as if IDT and its subsidiaries were a single company. Significant intercompany accounts and transactions between the consolidated companies have been eliminated.

Investments in companies in which IDT has significant influence, but less than a controlling voting interest, are accounted for using the equity method. Investments in companies in which IDT does not have a controlling interest or an ownership and voting interest so large as to exert significant influence are accounted for at market value if the investments are publicly traded and there are no resale restrictions, or at cost, if the sale of a publicly-traded investment is restricted or if the investment is not publicly traded.

The effect of any changes in IDT's ownership interests resulting from the issuance of equity capital by consolidated subsidiaries or equity investees to unaffiliated parties is included in gain on sales of subsidiary stock.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year's presentation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Revenue Recognition

Telecommunication services, Internet telephony services, Internet subscription services, and prepaid calling card revenues are recognized as services are provided. Equipment sales are recognized when installation is completed. Prepayments for services are deferred and recognized as revenue as the services are provided.

Sales of equipment with software necessary to provide the Company's services are accounted for in accordance with the American Institute of Certified Public Accountants' Statement of Position 97-2, Software Revenue

Recognition. Revenue on such sales is recognized when such products are delivered, collection of payments are assured and there are no significant future obligations.

Direct Cost of Revenue

Direct cost of revenue consists primarily of telecommunication costs, connectivity costs and the cost of equipment sold to customers. Direct cost of revenue excludes depreciation and amortization.

Property, Plant and Equipment

Equipment, buildings, furniture and fixtures are depreciated using the straight-line method over the estimated useful lives of the assets, which range from three to thirty years. Leasehold improvements are depreciated using the straight line method over the term of their lease or their estimated useful lives, whichever is shorter. Computer software is amortized over a period not exceeding five years.

Subscriber Acquisition Costs and Advertising

Subscriber acquisition costs including sales commissions, license fees and production and shipment of starter packages are expensed as incurred.

The Company expenses the costs of advertising as incurred. Typically, Net2Phone purchases banner advertising on other companies' web sites pursuant to contracts that have one to three year terms and may include the guarantee of (i) a minimum number of impressions, (ii) the number of times that an advertisement appears in pages displayed to users of the web site, or (iii) a minimum amount of revenue that will be recognized by Net2Phone from customers directed to Net2Phone's web site as a direct result of the advertisement. Net2Phone recognizes banner advertising expense with respect to such advertising ratably over the period in which the advertisement is displayed. In addition, some agreements require additional payments as additional impressions are delivered. Thus, additional payments are expensed when the impressions are delivered.

In one case, Net2Phone entered into an agreement with no specified term of years. In this case, the Company amortizes as expense the lesser of (i) the number of impressions to date/minimum guaranteed impressions, or (ii) revenue to date/minimum guaranteed revenue as a percentage of the total payments.

For the years ended July 31, 1999, 2000 and 2001, advertising expense totaled approximately $10,454,000, $46,722,000 and $17,071,000, respectively.

During the year ended July 31, 2000, the Company incurred approximately $28,000,000 of costs to terminate advertising arrangements. These termination costs are included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

Software Development Costs

Costs for the internal development of new software products and substantial enhancements to existing software products are expensed as incurred until technological feasibility has been established, at which time any additional costs are capitalized. For the years ended July 31, 1999, 2000 and 2001, research and development costs totaled approximately $757,000, $4,692,000 and $2,484,000, respectively.

Capitalized Internal Use Software Costs

The Company capitalizes certain costs incurred in connection with developing or obtaining internal use software. These costs consist of payments made to third parties and the salaries of employees working on such software development. For the years ended July 31, 1999, 2000 and 2001, the Company has capitalized $4,065,000, $8,593,000 and $2,463,000, respectively, of internal use software costs as computer software.

Long-Lived Assets

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, the Company reviews its long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The analysis of the recoverability utilizes undiscounted cash flows. The measurement of the loss, if any, will be calculated as the amount by which the carrying amount of the asset exceeds the fair value.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents are carried at cost which approximates market value. At July 31, 2000 and 2001, the Company had 66% and 89%, respectively, of its cash and cash equivalents in three financial institutions.

Marketable Securities

Marketable securities consist of equity securities, U.S. Government Agency Obligations and commercial paper. Certain debt securities held by Net2Phone, with original maturities of greater than three months at the time of purchase are classified as held to maturity and are carried at amortized cost. Interest on these securities is included in interest income as earned.

During fiscal 2000, IDT sold approximately $55,000,000 of held-to-maturity securities prior to their maturity dates and recorded a loss of approximately $1,200,000. The securities were sold to fund certain transactions. In connection with these sales, marketable securities with a cost basis of approximately $22,000,000 were reclassified as available-for-sale and through July 31, 2000, unrealized losses of approximately $850,000 were included in accumulated other comprehensive income.

Goodwill and Other Intangibles

Goodwill is amortized over 5 to 20 years using the straight-line method. Costs associated with obtaining the right to use trademarks and patents owned by third parties are capitalized and amortized on a straight-line basis over the term of the trademark licenses and patents. Other intangible assets consist of core programming technology and assembled workforce which are amortized over 32 to 35 months, and 48 to 54 months, respectively. The Company systematically reviews the recoverability of its acquired intangible assets for each acquired entity to determine whether an impairment has occurred. Upon determination that the carrying value of acquired intangible assets will not be recovered based on the undiscounted future cash flows of the acquired business, the carrying value of such acquired intangible assets would be considered impaired and would be reduced by a charge to operations in the amount that the carrying value exceeds the fair value.

Income Taxes

The Company accounts for income taxes under the liability method in accordance with SFAS No. 109, Accounting for Income Taxes. Under this method, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities.

Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing the net income (loss) attributable to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted earnings (loss) per share adjusts basic earnings (loss) per share for the effects of convertible securities, stock options, warrants and other potentially dilutive financial instruments, only in the periods in which such effect is dilutive.

Vulnerability Due to Certain Concentrations

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash, cash equivalents, marketable securities and trade accounts receivables. Concentration of credit risk with respect to trade accounts receivable is limited due to the large number of customers comprising the Company's customer base.

The Company is subject to risks associated with its international operations, including changes in exchange rates, difficulty in trade accounts receivable collection and longer payment cycles.

Management regularly monitors the creditworthiness of its domestic and international customers and believes that it has adequately provided for any exposure to potential credit losses.

Fair Value of Financial Instruments

The estimated fair value of financial instruments has been determined using available market information or other appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop estimates of fair value. Consequently, the estimates are not necessarily indicative of the amounts that could be realized or would be paid in a current market exchange. At July 31, 2001, the book carrying value of the Company's notes receivable and notes payable approximates fair value.

Stock Based Compensation

The Company accounts for stock options issued to employees using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Compensation expense for stock options issued to employees is measured as the excess of the quoted market price of the Company's stock at the date of grant over the amount employees must pay to acquire the stock.

The Company applies the disclosure-only provisions of SFAS No. 123, Accounting for Stock-Based Compensation, with respect to stock options issued to the Company's employees.

Recently Issued Accounting Standards

In June 2001, the FASB issued SFAS No.142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001, with early adoption permitted for companies with fiscal years beginning after March 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives.

The Company has chosen to early adopt the new rules on accounting for goodwill and other intangible assets and apply them beginning in the first quarter of fiscal 2002. The Company is currently performing the required impairment tests of goodwill and indefinite lived intangible assets as of August 1, 2001. Although the tests have not yet been finalized, preliminary indications are that the Company will record a significant impairment charge on its goodwill in the first quarter of fiscal 2002. The impairment charge will be recorded as a cumulative effect adjustment of a change in accounting principle.

2. Marketable Securities

The following is a summary of marketable securities as of July 31, 2001:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
Short-term				
Available-for-sale securities:				
U.S. Government Agency Obligations	$ 1,150	$ --	$ (33)	$ 1,117
Equity securities	6,318	--	(3,946)	2,372
	$ 7,468	$ --	($3,979)	$ 3,489

The following is a summary of marketable securities as of July 31, 2000:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value

	(In thousands)			
Short-term				
Held-to-maturity securities:				
U.S. Government Agency Obligations	$ 9,500	$ 2	$ (13)	$ 9,489
Commercial paper	49,642	--	(45)	49,597
	59,142	2	(58)	59,086
Available-for-sale securities:				
U.S. Government Agency Obligations	23,097	--	--	23,097
Terra common stock	147,921	--	--	147,921
	171,018	--	--	171,018
Long-term				
Held-to-maturity securities:				
U.S. Government Agency Obligations	5,000	--	(21)	4,979
Commercial paper	17,943	--	(38)	17,905
	22,943		(59)	22,884
Available-for-sale securities:				
WebEx common stock	5,332	--	--	5,332
Yahoo! Inc. common stock	104,003	--	--	104,003
	$ 109,335	$ --	$ --	$ 109,335

Proceeds and realized losses from the sale of available-for-sale securities for the year ended July 31, 2001 amounted to approximately $164,052,000 and $138,019,000, respectively

Terra Networks Transaction

In October 1999, IDT entered into a joint venture agreement with Terra Networks, S.A. ("Terra") pursuant to which the two parties formed two limited liability companies to provide Internet services and products to customers in the United States. One company was formed to provide Internet access to customers and the other company was formed to develop and manage an Internet portal that would provide content-based Internet services. IDT's 49% interest in the Internet access company was accounted for using the equity method of accounting. The equity method was used since IDT had significant influence, but less than a controlling voting interest. IDT's 10% interest in the Internet portal company was accounted for at cost. The cost method was used since IDT did not have a controlling voting interest, or an ownership or voting interest so large as to exert significant influence, and the venture was not publicly traded. On April 30, 2000, the Company sold its interests in the two joint ventures for the right to receive 3,750,000 shares of Terra common stock. In connection with this transaction, the Company recognized a pre-tax gain of approximately $231,032,000 for the year ended July 31, 2000. During the year ended July 31, 2001, the Company sold 3,745,000 of its Terra shares and recognized a loss of approximately $129,200,000, which has been included as a component of "Other income."

3. Property, Plant and Equipment

Property, plant and equipment consists of the following:

	July 31 2000	July 31 2001
	(In thousands)	
Equipment..	$ 238,767	$ 264,422
Computer software................................	32,215	10,192
Leasehold improvements...........................	11,918	16,930
Furniture and fixtures...........................	10,625	15,793
Land and building................................	6,327	8,937

	299,852	316,274
Less accumulated depreciation and amortization	(74,214)	(92,232)
Property, plant and equipment, net	$ 225,638	$ 224,042

Fixed assets under capital leases aggregate approximately $71,835,000 and $104,215,000 at July 31, 2000 and 2001, respectively. The accumulated amortization related to these assets under capital leases is approximately $17,756,000 and $35,361,000 at July 31, 2000 and 2001, respectively.

4. Goodwill and Other Intangibles

Goodwill and other intangibles consist of the following:

	July 31 2000	2001
	(In thousands)	
Goodwill	$ 156,639	$ 197,863
Assembled workforce	3,317	2,817
Core technology and patents	35,100	42,523
	195,056	243,203
Less accumulated amortization	(32,823)	(45,399)
Goodwill and other intangibles, net	$ 162,233	$ 197,804

Effective Fiscal 2002, the Company intends to adopt SFAS No. 142. As a result, the Company will no longer amortize goodwill and other intangibles deemed to have indefinite lives, but will be subject to annual impairment tests. Assembled workforce will be subsumed into goodwill.

5. Notes Payable

Notes payable consists of the following:

	July 31 2000	2001
	(In thousands)	
Promissory note (A)	$ 4,768	$ 2,332
Promissory note (B)	16,942	--
Promissory note (C)	4,800	--
Promissory note (C)	6,537	--
Other	1,731	705
	34,778	3,037
Less notes payable--current portion	(22,604)	(2,657)
Notes payable--long-term portion	$ 12,174	$ 380

(A) On May 6, 1999, the Company entered into a $7,800,000 promissory note with a financing company. The note is payable in 36 monthly installments commencing on June 1, 1999, and bears an adjustable interest rate indexed to the one month LIBOR rate. The promissory note is collateralized by certain equipment of the Company.

(B) On June 30, 2000, the Company completed the acquisition of a 100% interest in CTM Brochure Display, Inc. ("CTM"), a brochure distribution company. In connection with the acquisition, the Company issued promissory notes to the former shareholders in the aggregate amount of $16,942,000. The notes bear interest at the rate of 9.50% per annum. The principal balance on the notes, together with accrued interest, were repaid in full during the year ended July 31, 2001.

(C) The promissory notes were issued in connection with Net2Phone's Aplio acquisition and bore interest at an annual rate of 6.53%. The Company was required to pay $1,961,235 of the notes on March 31, 2001 and the remaining principal balance of $4,576,215 plus all accrued and unpaid interest on January 31, 2002. In addition Net2Phone was required to pay the former Aplio shareholders $4,800,000 over 18 months from the date of sale.

On May 10, 1999, the Company obtained a Senior Secured Credit Facility ("Credit Facility") from a consortium of financial institutions. During the

second quarter ended January 31, 2000, the Company repaid all of the outstanding principal balance together with accrued interest. The Company recorded a pre-tax extraordinary loss in connection with the repayment of $4,870,000 during the year ended July 31, 2000.

Annual future principal repayments of long-term debt for the five years subsequent to July 31, 2001 consist of $2,657,000 due in fiscal 2002, and $380,000 due in fiscal 2006.

6. Income Taxes

Significant components of the Company's deferred tax assets and liabilities consists of the following:

	July 31	
	2000	2001
	(in thousands)	
Deferred tax assets:		
Unrealized losses on securities	$ 34,484	$ 857
Bad debt reserve	5,331	3,980
Exercise of stock options	3,277	9,857
Reserves	4,500	4,500
Charitable contributions	--	10,765
Other	289	8,992
Deferred tax assets	47,881	38,951
Deferred tax liabilities:		

Deferred Revenue	--	(196,000)
Unrecognized gain on securities	--	(100,313)
Gain on sales of subsidiary stock	(97,830)	(105,466)
Partnership	(92,413)	--
Depreciation	(14,466)	(16,074)
Identifiable intangibles	(1,728)	(3,583)
Other	(10,216)	(8,429)
Deferred tax liabilities	(216,653)	(429,865)
Net deferred tax liabilities	$(168,772)	$(390,914)

No valuation allowance on the net deferred tax assets has been established as the realization of such net deferred tax assets is considered to be more likely than not.

The provision (benefit) for income taxes consists of the following for the years ended July 31:

	1999	2000	2001
		(in thousands)	
Current:			
Federal	$ 400	$ --	$ 6,600
State and local and foreign	--	(395)	14,249
	400	(395)	20,849
Deferred:			
Federal	3,768	175,191	150,997
State and local and foreign	995	41,712	37,549
	4,763	216,903	188,546
	$ 5,163	$ 216,508	$ 209,395

IDT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The income statement classification of the provision (benefit) for income taxes consists of the following at July 31:

	1999	2000	2001
		(in thousands)	
Income tax provision attributable to continuing operations	$ 7,253	$ 218,403	$ 209,395
Income tax benefit attributable to extraordinary loss	(2,090)	(1,895)	--
	$ 5,163	$ 216,508	$ 209,395

The differences between income taxes expected at the U.S. federal statutory income tax rate and income taxes provided are as follows:

	1999	2000	2001
		(in thousands)	
Federal income tax at statutory rate	$ (3,842)	$ 137,513	$ 261,618
Foreign tax rate differential	--	--	(99,563)
Losses for which no benefit provided	6,110	32,703	19,141

Nondeductible expenses	2,226	17,625	2,162
State and local and foreign income tax	647	28,612	26,037
Other	22	55	--
	$ 5,163	$ 216,508	$ 209,395

7. Stockholders' Equity

Common Stock, Class A Common Stock, and Class B Common Stock

The rights of holders of common stock, Class A common stock and Class B common stock are identical except for certain voting and conversion rights and restrictions on transferability. The holders of Class A common stock are entitled to three votes per share. The holders of Class B common stock are entitled to one-tenth of a vote per share, and the holders of common stock are entitled to one vote per share. Class A common stock is subject to certain limitations on transferability that do not apply to the common stock and Class B common stock. Each share of Class A common stock may be converted into one share of common stock, at any time at the option of the holder.

Stock Options

Prior to March 15, 1996, the Company had an informal stock option program whereby employees were granted options to purchase shares of common stock. Under this informal program, options to purchase 4,317,540 shares of common stock were granted.

The Company adopted a stock option plan as amended (the "Option Plan") for officers, employees and non-employee directors to purchase up to 6,300,000 shares of the Company's common stock. In September 2000, the Board of Directors of the Company approved an amendment to the Option Plan to reserve for issuance of 6,000,000 shares of Class B common stock. Generally, options become exercisable over vesting periods up to six years and expire ten years from the date of grant.

A summary of stock option activity under the Company's stock option plan is as follows:

	Shares	Weighted-Average Exercise Price
Outstanding at July 31, 1998	6,429,270	$ 3.95
Granted	2,272,482	7.61
Exercised	(1,393,680)	2.93
Canceled	(116,000)	7.43
Forfeited	(16,140)	4.14
Outstanding at July 31, 1999	7,175,932	5.25
Granted	8,851,086	9.98
Exercised	(2,621,400)	5.54
Canceled	(95,000)	8.86
Forfeited	(31,500)	10.93
Outstanding at July 31, 2000	13,279,118	8.31
Granted	5,112,004	9.15
Exercised	(1,041,451)	6.61
Canceled	(299,247)	5.71
Forfeited	(55,200)	12.63

Outstanding at July 31, 2001............	16,995,224	$ 8.70

The following table summarizes the status of stock options outstanding and exercisable at July 31, 2001:

	Stock Options Outstanding		
Range of Exercise Prices	Number of Options	Weighted-Average Remaining Contractual Life (in years)	Number of Stock Options Exercisable
$0.10 - $0.10............................	470,500	3.0	470,500
$0.21 - $0.21............................	17,632	3.7	17,632
$0.41 - $0.41............................	81,000	3.0	81,000
$0.83 - $0.83............................	30,000	3.7	30,000
$2.19 - $2.63...........................	705,400	5.6	705,400
$3.44 - $4.13...........................	985,250	5.7	835,250
$5.63 - $8.00...........................	2,581,400	6.5	1,823,091
$8.72 - $12.13..........................	10,960,542	8.9	3,065,020
$13.13 - $18.51.........................	1,163,500	8.2	732,350
	16,995,224	7.9	7,760,243

The weighted-average fair value of options granted was $4.63, $7.42 and $7.05 for the years ended July 31, 1999, 2000, and 2001, respectively.

Pro forma information regarding net income (loss) and income (loss) per share is required by SFAS No. 123, and has been determined as if the Company had accounted for employees' stock options under the fair value method provided by

that statement. The fair value of the stock options was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions for vested and non-vested options.

	1999	2000	2001
Assumptions			
Average risk-free interest rate..........	4.67%	6.49%	4.77%
Dividend yield...........................	--	--	--
Volatility factor of the expected market price of the Company's common stock......	84%	81%	90%
Average life.............................	5 years	5 years	5 years

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employees' stock options.

For purposes of pro forma disclosures, the estimated fair value of the options under SFAS No. 123 is amortized to expense over the options' vesting period. For the years ended July 31, 1999, 2000 and 2001, pro forma net income (loss) and pro forma net income (loss) per share under SFAS No.123 amounted to the following:

	Year ended July 31,		
	1999	2000	2001
Pro forma net income (loss)	(53,295,000)	214,286,000	514,716,000
Pro forma net income (loss) per share:			
Basic	(0.80)	3.06	7.54
Diluted	(0.80)	2.84	6.88

The Company has modified stock options granted for certain employees of the Company to accelerate or extend their terms. Accordingly, the Company recorded additional compensation expense of approximately $3,082,000 and $985,000, for the years ended July 31, 2001 and 2000, respectively.

Net2Phone Stock Options

In the fourth quarter of fiscal 1999, Net2Phone granted options to purchase 8,811,500 shares of its common stock at exercise prices ranging from $3.33 to $15.00 per share to its employees and employees of IDT. In connection with the exercise of these options, Net2Phone extended $3,149,900 of recourse loans to its employees. In order to obtain the loans, optionees agreed to the cancellation of 23,382 outstanding options.

During the quarter ended July 31, 2000, stock options issued to certain officers and employees of Net2Phone were accelerated in accordance with the original stock option awards and as a result Net2Phone recorded approximately $12,500,000 in compensation charges as a result of the acceleration. During the quarter ended July 31, 2000, stock options issued to certain officers and employees of IDT were modified and as a result, Net2Phone recorded $18,300,000 in compensation charges.

Net2Phone Series A Stock

On May 13, 1999, Net2Phone designated 3,150,000 shares of its preferred stock as Series A ("Series A Stock") and sold 3,140,000 of such shares to unrelated third parties in a private placement transaction for aggregate gross proceeds of $31,400,000.

Stock Buyback Program

During the year ended July 31, 2000, the Board of Directors of the Company authorized the repurchase of up to twenty million shares of the Company's common stock. In October 2000, the Board of Directors authorized a further increase in the share repurchase program to 25 million shares. During fiscal 2001, the Company repurchased 8.0 million shares, for an aggregate purchase price of $135,849,000. Combined with 6.3 million shares purchased during Fiscal 2000, the

Company has repurchased a total of approximately 14.3 million shares of common stock through the end of Fiscal 2001. In addition, the Company has repurchased 1.4 million common shares during the first quarter of Fiscal 2002.

Liberty Media Transaction

On March 27, 2000, Liberty Media agreed to purchase approximately 9.9% of the equity of IDT, equal to approximately 7,550,000 shares of IDT's common stock and exchangeable for shares of Class B common stock. On June 6, 2000, Liberty Media completed the purchase of 7,457,898 shares of IDT's common stock at $17.25 per share, resulting in aggregate cash consideration of approximately $128,648,000. Liberty Media also has the right to nominate a director for election to the IDT Board of Directors.

AT&T Transaction

In March 2000, the Company was granted the option to sell AT&T 4,081,632 shares of its Class B common stock for approximately $74,787,000. In March 2001, the Company exercised this option.

Hicks Muse Tate & First Transaction

In June 2001, the Company issued stock options to Hicks, Muse, Tate & Furst Incorporated ("HMTF") to purchase up to 2,200,000 shares of the Company's Class B common stock at exercise prices ranging from $11.25 to $15.00 per share, as defined. The stock options are exercisable on the first anniversary of the agreement, and expire on the fifth anniversary date. In consideration for the stock options issued to HMTF, the Company received $2,000,000 in cash.

IDT Charitable Foundation

In May 2001, the Company established the IDT Charitable Foundation ("Foundation") with the purpose of obtaining money or property to be contributed from time to time to eligible charitable organizations. The Foundation also administers a matching gifts program available to our directors, officers, employees and retirees.

In July 2001, the Company funded the Foundation with 2.2 million shares of Class B common stock worth approximately $26,378,000 million at that time.

Net2Phone Summary Financial Information

Summary financial information for Net2Phone as of July 31, 2000 is as follows:

($'s in thousands):

Current assets	$	156,023
Total assets	$	411,728
Working capital	$	106,372
Revenue	$	72,401
Operating loss	$	(128,513)

8. Commitments and Contingencies

Legal Proceedings

On February 15, 2000, Multi-Tech Systems, Inc. filed suit against Net2Phone, Inc. and other companies in the United States Federal District Court in Minneapolis, Minnesota. In its press release, Multi-Tech stated that "the defendant companies are infringing because they are providing the end users with the software necessary to simultaneously transmit voice and data on their computers in the form of making a phone call over the Internet." Net2Phone has defended the lawsuit vigorously. Net2Phone has filed an answer and discovery has now been completed. Trial of this matter is tentatively scheduled for August 1,

2002. In the interim, it is likely that various motions will be filed to limit the scope of the plaintiff's claims or to dismiss the action in its entirety. Net2Phone believes that the Multi-Tech claims are without merit. However, should a judge issue an injunction against Net2Phone requiring that they cease distributing Multi-Tech's software or providing Multi-Tech's software-based services, such an injunction could have a material adverse effect on Net2Phone's business operations, financial condition, results of operations and cash flows.

IDT filed a Complaint with the United States District Court for the District of New Jersey on January 29, 2001, against Telefonica S.A., Terra Networks, S.A., Terra Networks, U.S.A., Inc. and Lycos, Inc. The complaint asserts claims against the defendants for, among other things, breaches of various contracts, breach of fiduciary duty, securities violations, fraudulent misrepresentation, negligent misrepresentation, fraudulent concealment and tortious interference with prospective economic advantage. The defendants have been served with the complaint. IDT has filed an amended complaint and the defendants have filed an answer to the amended complaint. Terra Networks, S.A., has filed a Counterclaim for breach of contract alleging that IDT was required to pay to Terra Networks, S.A. $3,000,000, and that IDT has allegedly failed to do so. The Defendants have filed a Motion to Dismiss the Complaint. On September 14, 2001, the Court issued an Order: (a) permitting IDT to take discovery relevant to the subject of whether Telefonica is subject to personal jurisdiction, (b) denying Telefonica's motion to dismiss for lack of personal jurisdiction without prejudice to Telefonica's right to renew the motion upon the completion of jurisdictional discovery, and (c) carrying on the calendar defendants' motion to dismiss on non-jurisdictional grounds pending the completion of jurisdictional discovery.

On May 25, 2001, IDT filed a Statement of Claim with the American Arbitration Association naming Telefonica Internacional, S.A. ("Telefonica") as the Respondent. The Statement of Claim asserts that IDT and Telefonica entered into a Memorandum of Understanding ("MOU") that involved, among other things, the construction and operation of a submarine cable network around South America ("SAm-I"). IDT is claiming, among other things, that Telefonica breached the MOU by: (1) failing to negotiate SAm-I agreements; (2) refusing to comply with the equity provisions of the MOU; (3) refusing to sell capacity and back-haul capacity pursuant to the MOU; and (4) failing to follow through on the joint venture. In addition to IDT's request that Telefonica comply with the terms of the MOU, IDT is alleging that it has been damaged in amounts not less than: (1) $1.15 billion for claim number 1 above; (2) $1.15 billion for claim number 2 above; (3) $100 million for claim number 3 above; and (4) $750 million for claim number 4 above. Telefonica has responded to IDT's Statement of Claims and has filed a Statement of Counterclaim which alleges, inter alia: (1) Fraud in the Inducement; (2) Tortious Interference with Prospective Business Relations; (3) Breach of the Obligations of Good Faith and Fair Dealing; and (4) Declaratory and Injunctive Relief. This action is currently in the early stages of discovery.

The Company is subject to other legal proceedings and claims, which have arisen in the ordinary course of its business and have not been finally adjudicated. Although there can be no assurances in this regard, in the opinion of the Company's management, such proceedings, as well as the aforementioned actions, will not have a material adverse effect on results of operations or the financial condition of the Company.

Lease Obligations

The future minimum payments for all capital and operating leases as of July 31, 2001 are approximately as follows:

	Operating Leases	Capital Leases
	(In thousands)	
Year ending July 31:		
2002	$ 9,595	$ 21,386
2003	8,527	21,710
2004	8,042	15,557
2005	7,780	10,212
2006	6,920	8,179
Thereafter	93,331	--
Total payments	$ 134,195	77,044
Less amount representing interest		(8,975)
Less current portion		(18,270)
Capital lease obligations--long-term portion		$ 49,799

Rental expense under operating leases was approximately $2,821,000, $6,857,000 and $4,857,000 for the years ended July 31, 1999, 2000 and 2001, respectively.

Commitments

The Company has entered into purchase commitments of approximately $31,000,000, primarily related to connectivity agreements.

9. Business Segment Information

Based principally on products and services provided, the Company has identified five reportable business segments: Wholesale Telecommunications Services, Retail Telecommunications Services, Internet Services, Internet Telephony, and Ventures The operating results of these business segments are distinguishable, are regularly reviewed by Company management and are integral to their decision making process.

The Wholesale Telecommunications Services business segment is comprised of wholesale carrier services sold to other U.S. and international carriers. The Retail Telecommunications Services business segment includes prepaid and rechargeable calling cards, international retail services and domestic long distance services. The Internet Services business segment includes dial-up access services and direct connect dedicated service. The Internet Telephony business segment reflects the results of the Company's formerly majority-owned subsidiary, Net2Phone, prior to the elimination of minority interests. The Ventures business segment, new for the fiscal year ended July 31, 2000, includes new industries explored by the Company, such as CTM Brochure Display, Inc.

The Company evaluates the performance of its business segments based primarily on operating income after depreciation and amortization but prior to interest expense and income taxes. All corporate overhead is allocated to the business segments based on time and usage studies, except for certain specific corporate transactions that are not associated with the operations of the business segments. Operating results and other financial data presented for the principal business segments of the Company for the years ended July 31, 1999, 2000 and 2001 are as follows (in thousands):

	Wholesale Telecommunications Services	Retail Telecommunications Services	Internet Services	Internet Telephony	Ventures	Corporate	Total
Year ended July 31, 1999							
Total segment revenue	$ 301,413	$ 395,542	$ 17,882	$ 33,256	$ --	$ --	$ 748,093
Less revenue between segments	(12,383)	--	(948)	(2,578)	--	--	(15,909)
Total unaffiliated revenue ...	289,030	395,542	16,934	30,678	--	--	732,184
Income (loss) from operations	12,596	12,283	(8,197)	(24,408)	--	--	(7,726)
Depreciation and amortization	14,120	15,275	4,699	2,266	--	--	36,360
Year ended July 31, 2000							
Total segment revenue	549,213	504,594	13,768	72,401	1,639	--	1,141,615
Less revenues between segments	(28,695)	(2,082)	(600)	(16,326)	--	--	(47,703)
Total unaffiliated revenue ...	520,518	502,512	13,168	56,075	1,639	--	1,093,912
Income (loss) from operations	(11,458)	(33,877)	(18,112)	(125,865)	(27,299)	--	(216,611)
Depreciation and amortization	18,407	17,771	5,285	6,804	297	--	48,564
Total assets	431,659	358,656	13,145	403,202	12,393	--	1,219,055
Year ended July 31, 2001							
Total segment revenue	388,120	816,384	9,876	--	16,570	--	1,230,950
Less revenues between segments	--	--	--	--	--	--	--
Total unaffiliated revenue ...	388,120	816,384	9,876	--	16,570	--	1,230,950
Income (loss) from operations	(68,289)	(58,082)	(19,949)	--	(253,502)	(32,888)	(432,710)
Depreciation and amortization	24,542	27,937	4,396	--	3,476	--	60,351
Total assets	$ 535,776	$ 1,066,402	$ 14,587	$ --	$ 264,573	$ --	$ 1,881,338

Revenue from customers located outside of the United States represented approximately 13%, 17% and 16% of total revenue for the years ended July 31, 1999, 2000 and 2001, respectively, with no single foreign geographic area representing more than 10% of total revenues for the years ended July 31, 1999 and 2000 and Western Europe representing approximately 15% of total revenues for the year ended July 31, 2001. Revenues are attributed to countries based on the location of the customer. Long-lived assets held outside of the United States totaled approximately $24,400,000 and $88,800,000 as of July 31, 2000 and 2001, respectively.

As a result of the Company's gradual exit from the dial-up Internet access service business, including the sale of the majority of its dial-up Internet access customers, the Company recorded an impairment charge of approximately $5,957,000 during the year ended July 31, 2001 for the write-down of certain Internet Services segment fixed assets, primarily relating to equipment previously used to provide dial-up Internet access services.

10. Additional Financial Information

Trade accounts payable includes approximately $96,215,000 and $112,918,000 due to telecommunication carriers at July 31, 2000 and 2001, respectively.

11. Acquisitions

CTM Brochure Display, Inc.

On June 30, 2000, the Company acquired a 100% interest in CTM Brochure Display, Inc. ("CTM"), a brochure distribution company, for an aggregate purchase price of approximately $23,800,000. The purchase price consisted primarily of $5,100,000 in cash, $16,942,000 in notes payable to the former owners and the liquidation of $1,400,000 of CTM's bank debt. In connection with the transaction, the Company recorded goodwill of $23,000,000 which is being amortized over 20 years and tax liabilities of $3,000,000. The acquisition was accounted for as a purchase, and accordingly, the net assets and results of operations of the acquired business have been included in the consolidated financial statements from the date of acquisition. During the year ended July 31, 2001, the Company repaid the entire principal balance on the notes payable, together with accrued interest.

Aplio, S.A.

On July 7, 2000, Net2Phone acquired all of the outstanding capital stock of Aplio, S.A ("Aplio"), a company located in France with technology that enables

VoIP devices. Consideration consisted of $2,900,000 in cash at closing, 582,749 shares of Net2Phone's common stock which were valued at $35.50 per share, issuance of promissory notes aggregating $6,500,000, $1,100,000 in acquisition related costs and $4,800,000 in cash to be paid within eighteen months of the closing of the transaction.

As collateral for the $4,800,000 payment, Net2Phone has acquired 152,390 shares of its common stock in escrow. The aggregate purchase price of $36,000,000 plus the fair value of net liabilities assumed of $2,700,000 totaled approximately $38,700,000 which was allocated as follows: approximately $17,500,000 to goodwill, $20,700,000 to core technology and patents and $500,000 to assembled workforce.

The acquisition was accounted for as a purchase by Net2phone, and accordingly, the net assets and results of operations of the acquired business was included in the consolidated financial statements through August 2000.

PT-1 Communications

In February 2001, the Company purchased certain assets of PT-1 Communications, Inc. ("PT-1"), a wholly-owned subsidiary of STAR Telecommunications, Inc., relating to its prepaid card business with a payment of cash and assumption of certain liabilities, including the obligation to honor the outstanding phone cards of PT-1. The cash payment and assumption of net liabilities incurred were approximately $26,300,000 with substantially all of the purchase price recorded as goodwill and being amortized over a period of 20 years.

Equity Interests in Teligent, Inc. and ICG Communications, Inc.

In April 2001, through its IDT Investments Inc. subsidiary ("IDT Investments") the Company acquired from Liberty Media 21,436,689 shares of Teligent, Inc. ("Teligent"), as well as an interest in ICG Communications, Inc. ("ICG"), represented by 50,000 shares of ICG's A-3 Preferred Stock and warrants to purchase 6,666,667 ICG common shares. In exchange, IDT Investments issued Liberty Media a total of 10,000 shares of its Class B Common Stock and 40,000 shares of its Preferred Class A stock. Upon completing the transaction, IDT effectively owned approximately 29% of the equity of Teligent, and approximately 40% of the equity of ICG.

In May 2001, through its IDT Investments subsidiary, the Company entered into an agreement with various affiliates of HMTF to increase IDT's strategic investments in Teligent and ICG. Under the terms of the agreement, the HMTF affiliates received 18,195 shares of IDT Investments' Series B Convertible Preferred Stock in exchange for the HMTF affiliates' stakes in Teligent and ICG. The HMTF affiliates owned 219,998 shares of Teligent's Series A Convertible Preferred Stock, 23,000 shares of ICG's 8% Series A-2 Convertible Preferred Stock and warrants to purchase 3,066,667 shares of ICG's common stock. The share of the equity losses recorded by IDT subsequent to all of the above Teligent and ICG transactions have eliminated the carrying value of the investments in these companies.

In May 2001, Teligent filed a voluntary bankruptcy petition under Chapter 11 of the U.S. Bankruptcy Code. ICG had previously filed for bankruptcy protection in November 2000.

12. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	Year ended July 31 1999	2000	2001
	(In thousands)		
Numerator:			
Net income (loss)	$(18,204)	$230,850	$532,359
Subsidiary redeemable preferred stock dividends	(26,297)	--	--
Net income (loss) attributable to common stockholders	$(44,501)	$230,850	$532,359
Denominator:			
Weighted-average number of shares outstanding--Basic	67,060	69,933	68,301
Effect of stock options	--	5,306	6,485
Weighted-average number of shares outstanding--Diluted	67,060	75,239	74,786
Basic earnings (loss) per share	$ (0.66)	$ 3.30	$ 7.79
Diluted earnings (loss) per share	(0.66)	3.07	7.12

The following securities have been excluded from the dilutive per share computation as they are antidilutive

	Year ended July 31 1999	2000	2001
Stock options:	3,587,966	449,500	1,163,500

13. Net2Phone Subsidiary Stock Sales

During the year ended July 31, 2000, the Company recognized approximately $350,344,000 in gains, including gain on sales of subsidiary stock related to Net2Phone stock sales as follows:

On August 3, 1999, Net2Phone completed an initial public offering of 6,210,000 shares of common stock at an initial public offering price of $15.00 per share, resulting in net proceeds of approximately $85,300,000. Upon completion of the initial public offering, 3,140,000 shares of Net2Phone Series A Preferred Stock were converted into 9,420,000 shares of Net2Phone Class A Stock. As a result of the initial public offering and concurrent conversion of Series A Stock to Class A stock, the Company's ownership percentage in Net2Phone decreased from approximately 90.0% to approximately 56.2%. In connection with such offering, the Company recorded a gain on sale of stock by a subsidiary of approximately $65,464,000. Such gain is included in gain on sales of subsidiary stock for the year ended July 31, 2000. Deferred taxes of $26,200,000 have been provided on the gain.

In December 1999, Net2Phone completed a secondary offering of 6,300,000 shares of common stock at a price of $55.00 per share. In connection with this offering, IDT also sold 2,200,000 shares of Net2Phone common stock at $55.00 per share. Proceeds to the Company, after deducting underwriting discounts and commissions and offering expenses were approximately $292,800,000. The Company's ownership interest in Net2Phone before and after these transactions decreased from 56.2% to 47.97%. The Company recorded gains on sales of stock of approximately $182,594,000 in connection with these offerings. Such gains are included in gain on sales of subsidiary stock for the year ended July 31, 2000. Deferred taxes of approximately $30,700,000 have been provided for these gains.

In March 2000, the Company acquired 806,452 shares of Yahoo! Inc. in exchange for 2,777,778 shares of Net2Phone common stock at a then equivalent market value of approximately $150,000,000. In connection with this transaction, the Company recorded a gain on sale of subsidiary stock of $102,286,000.

14. TyCom Settlement

On October 10, 2000, IDT reached a full and final settlement with TyCom Ltd. ("TyCom") of all pending claims brought against one another and their respective affiliates. The settlement agreement is subject to a confidentiality agreement among the parties and only the following disclosure by IDT is permitted under the terms of that agreement.

Under the terms of the settlement, TyCom granted to IDT Europe B.V.B.A. ("IDT Europe"), free of charge, certain exclusive rights to use capacity on the transatlantic and transpacific segments of TyCom's global undersea fiber optic network (the "TyCom Global Network"), which TyCom is currently deploying. The settlement agreement provides for IDT Europe to obtain exclusive indefeasible rights to use two 10 Gb/s wavelengths on the transatlantic segment and two 10 Gb/s wavelengths on the transpacific segment for fifteen years from the applicable Handover Dates ("IRU") (as described below). TyCom previously announced that it expects the TyCom transatlantic network to be ready for service in September 2001, and the TyCom transpacific network to be ready for service in the second quarter of 2002, the respective "Ready for Service Dates." Under the terms of the settlement agreement, the Handover Dates for the wavelengths on the transatlantic segment are nine months (for the first wavelength) and 18 months (for the second wavelength), respectively, after the Ready for Service Date of the TyCom transatlantic network; and the Handover Date

for the wavelengths on the transpacific segment are nine months (for the first wavelength) and 18 months (for the second wavelength), respectively, after the Ready for Service Date of the TyCom transpacific network.

Operation, administration and maintenance for the wavelengths used by the Company will be provided by TyCom for a fifteen year period after the relevant Handover Date, free of charge. TyCom has also granted the Company certain rights to resell any unused capacity on the wavelengths through TyCom as its sole and exclusive agent. In addition, the Company will also have the option, exercisable at least annually, to convert the available capacity on its wavelengths to available equivalent capacity on another portion of the TyCom Global Network. In recognition of the settlement, a gain of $313,486,000 was included as a component of "Other income" in the second quarter of Fiscal 2001. Due to a significant decline in IRU pricing and on demand for bandwidth capacity, the Company subsequently re-evaluated the recoverability of the carrying value of its IRU in accordance with SFAS No. 121 and as a result, the Company has recorded an impairment loss of $193,400,000 in the fourth quarter of Fiscal 2001 to reflect the asset's fair value.

16. Subsequent Events

On October 23, 2001 IDT entered into an agreement to lead a consortium that would concentrate ownership of approximately 50% (64% of the voting power) of Net2Phone. The consortium consists of IDT, Liberty Media, and AT&T, resulting in significant economic stakes in Net2Phone for all three parties. As part of the agreement, IDT and AT&T contributed their shares of Net2Phone (approximately

10.0 million and 18.9 million shares, respectively) to a newly formed Limited Liability Company (LLC). Liberty then acquired a susbtantial portion of the LLC's units from AT&T, while IDT increased its stake and AT&T retained a significant interest. IDT will be the managing member of th LLC.

IDT CORPORATION

FINANCIAL STATEMENT SCHEDULE--VALUATION AND QUALIFYING ACCOUNTS

	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions (1)	Balance at End of Period
1999				
Reserves deducted from accounts receivable:				
Allowance for doubtful accounts....	$ 6,255,000	$ 5,558,000	$ (4,170,000)	$ 7,643,000
2000				
Reserves deducted from accounts receivable:				
Allowance for doubtful accounts....	7,643,000	20,154,000	(1,026,000)	26,771,000
2001				
Reserves deducted from accounts receivable:				
Allowance for doubtful accounts....	26,771,000	32,873,000	(37,136,000)	22,508,000

(1) Uncollectible accounts written off, net of recoveries.

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